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TAGS: EGEN, EFIN, EI
SUBJECT: RELEASE OF GOVERNMENT GREEN PAPER ON ECONOMIC
POLICY OPTIONS

1. SUMMARY: THE GOVERNMENT HAS RELEASED A GREEN
PAPER TO PROVIDE A BASIS FOR DISCUSSION AMONG "THE
SOCIAL PARTNERS" WHICH IS TO LEAD TO THE ISSUANCE
LATER THIS YEAR OF A MORE FORMAL, LONGER-TERM ECONOMIC
POLICY STATEMENT. THE GREEN PAPER RE-EMPHASIZES THE
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GOVERNMENT'S OFT-STATED PREOCCUPATION WITH UNEMPLOY-
MENT (WHICH DESPITE RECENT IMPROVEMENT STILL
STANDS AT ABOUT NINE PERCENT), AND PROPOSES TO PUT
IRELAND ON A PATH TO FULL EMPLOYMENT BY 1983. REACTION
TO THE PLAN HAS BEEN MUTED THUS FAR. THE CONTINUED
STRESS ON THE IMPORTANCE OF THE PRIVATE SECTOR AND
THE NEED FOR PROFIT MARGINS ADEQUATE TO STIMULATE

PRIVATE INVESTMENT HAVE ELICITED A CAUTIOUSLY POSITIVE REACTION FROM THE BUSINESS COMMUNITY. LABOR HAS EXHIBITED A NOTABLE LACK OF ENTHUSIASM FOR THE RELATIVELY LOW PRIORITY GIVEN TO THE IMPROVEMENT OF SOCIAL SERVICES AND FOR SEVERAL OF THE KEY PROPOSALS FOR THE RELIEF OF UNEMPLOYMENT, PARTICULARLY THOSE ON WORK SHARING. A MAJOR QUESTION MARK IS THE DEGREE OF COMPATIBILITY BETWEEN THE GOVERNMENT'S VERY AMBITIOUS GOALS FOR GNP GROWTH (SEVEN PERCENT PER ANNUM FOR 1978-80) AND JOB CREATION (25,000 NET NEW JOBS PER YEAR FOR THE SAME PERIOD) AND ITS COMMITMENT TO DRAMATICALLY REDUCE THE BUDGET DEFICIT AS A PERCENT OF GNP BY 1980.

END SUMMARY.

2. LAST JANUARY THE GOI RELEASED A WHITE PAPER WHICH PROVIDED A BARE BONES OUTLINE OF ITS ECONOMIC PROGRAM. THIS SKETCH FOR THE SHORT AND MEDIUM TERM WAS SUPPLEMENTED IN FEBRUARY BY THE 1978 BUDGET. A GOVERNMENT GREEN PAPER DESIGNED TO SPELL OUT ECONOMIC POLICY OPTIONS FOR THE FUTURE HAS NOW BEEN RELEASED. THE DOCUMENT IS TO PROVIDE THE BASIS FOR A SERIES OF EXCHANGES BETWEEN THE "SOCIAL PARTNERS" WHICH WILL ENABLE THE GOVERNMENT TO COMPILE LATER THIS YEAR LONG TERM ECONOMIC STRATEGY BASED UPON GENERAL CONSENSUS. MAJOR FEATURES OF THE PAPER FOLLOW.

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3. GNP GROWTH AND INFLATION: THE GREEN PAPER REITERATES THE VERY AMBITIOUS TARGETS FOR 1978-80 OUTLINED IN THE JANUARY WHITE PAPER (ANNUAL REAL GNP GROWTH OF SEVEN PERCENT, REDUCTION OF INFLATION TO FIVE PERCENT) AND SEEMS TO ASSUME THEIR ACHIEVEMENT THROUGH 1980. ABSOLUTE ADHERENCE TO THE TERMS OF THE 1978 NATIONAL PAY AGREEMENT IS CITED AS A NECESSARY CONDITION FOR CONTINUED PROGRESS TOWARDS THE ACHIEVEMENT OF THESE TARGETS, AND TOWARDS THE GOVERNMENT'S JOB CREATION GOALS.

4. UNEMPLOYMENT - REDUCTION OF UNEMPLOYMENT CONTINUES TO BE THE MOST SERIOUS CONCERN OF THE GOI AND, IN FACT, THE GREEN PAPER GOES WELL BEYOND PREVIOUSLY ANNOUNCED (AND VERY AMBITIOUS) TARGETS TO SUGGEST MEASURES FOR THE ERADICATION OF UNEMPLOYMENT BY 1983. THE SCOPE OF THE PROBLEM IS REFLECTED NOT JUST IN THE CURRENT NINE PERCENT UNEMPLOYMENT RATE BUT ALSO IN COMPARATIVE FIGURES FOR TOTAL EMPLOYMENT FOR 1965 AND 1977. A NET INCREASE IN NON-AGRICULTURAL EMPLOYMENT OF 71,000 DURING THAT PERIOD WAS OFFSET BY A FALL OF 104,000 IN NUMBERS ENGAGED IN AGRICULTURE. THUS THE ESTIMATED NUMBER OF PERSONS AT WORK ACTUALLY DECLINED FROM

1,069,000 TO 1,036,000 OVER THAT 12 YEAR PERIOD. DURING
1965 TO 1974 (A PERIOD OF STRONG GROWTH) THE ANNUAL
AVERAGE INCREASE IN NON-AGRICULTURAL JOBS WAS 9,000 PER
YEAR. IT IS IN THIS CONTEXT THAT THE GOVERNMENT
IS SEEKING TO CREATE 29,000 NET NEW NON-AGRICULTURAL
JOBS ANNUALLY DURING 1978-80. THE GOVERNMENT,
MOREOVER, CONCEDES THAT EVEN IF ITS STIMULATIVE PROGRAMS
ARE SUCCESSFUL THERE MAY STILL BE 80,000
UNEMPLOYED IN 1980, AND ESTIMATES A FIGURE OF 65,000
JOBLESS FOR 1983. ONE OPTION PROPOSED TO ELIMINATE
UNEMPLOYMENT ENTIRELY BY 1983 IS WORK SHARING, PERHAPS
THE ONLY PROPOSAL IN THE GREEN PAPER WHICH
APPROACHES THE DESIGNATION "RADICAL" WHICH THE GOVERNMENT

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HAS APPLIED TO THE DOCUMENT AS A WHOLE. VARIOUS WORK
SHARING ALTERNATIVES INCLUDE REDUCED OVERTIME, EARLY
RETIREMENT, RESTRICTIONS ON SECOND JOBS, AND A REDUCED
WORK YEAR. A CRUCIAL CAVEAT IS THAT THIS APPROACH
MUST NOT BE ALLOWED TO LEAD TO HIGHER PRODUCTION COSTS.
AN ALTERNATIVE OR PERHAPS COMPLEMENTARY SCHEME TO WORK
SHARING WOULD BE THE ESTABLISHMENT BY THE GOVERNMENT OF

A VAGUELY SPELLED OUT "RESIDUAL JOB CREATION PROGRAM" AT A COST TO THE TAX PAYER OVER FIVE YEARS OF IRISH POUNDS 270 MILLION. BOTH WORK-SHARING AND/OR THE RESIDUAL JOB CREATION PROGRAM, IT IS POINTED OUT, WOULD IMPOSE A FINANCIAL BURDEN ON THE ALREADY EMPLOYED TO PROVIDE WORK OPPORTUNITIES FOR THOSE LESS FORTUNATE.

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5. FISCAL POLICY - THE GOVERNMENT IS FIRMLY COMMITTED TO A PROGRESSIVE REDUCTION IN ITS BUDGET BORROWING REQUIREMENT FROM 13 PERCENT OF GNP THIS YEAR TO EIGHT PERCENT IN 1980. THIS MEANS LIMITING THE TOTAL OF THE GOI CURRENT AND CAPITAL BUDGETS, WHICH EXCEEDED 50 PERCENT OF GNP IN 1978, TO ABOUT 48 PERCENT IN 1980. HOWEVER, CAPITAL SPENDING WILL ACTUALLY BE INCREASED AS A PERCENTAGE OF GNP (FROM ABOUT 12.5 PERCENT TO ABOUT 13 PERCENT IN 1980) TO PROVIDE INVESTMENT-RELATED INFRA-STRUCTURE IMPROVEMENTS. THIS DELIBERATE CHANNELLING OF FUNDS TOWARDS THE REDUCTION OF UNEMPLOYMENT WILL MEAN THAT A SMALLER PERCENTAGE OF RESOURCES WILL BE AVAILABLE FOR SOCIAL SERVICES DURING THIS TRANSITION PERIOD, A PROPOSAL WHICH SEEMS LIKELY TO SERVE AS A FOCAL POINT FOR CRITICS. A FURTHER AND PERHAPS EVEN MORE FUNDAMENTAL QUESTION WHICH IS NOT REFERRED TO IN THE GREEN PAPER AT ALL IS THE POSSIBLE EFFECT OF A TIGHTER FISCAL POLICY ON THE VERY AMBITIOUS GOALS FOR GROWTH AND JOB CREATION DURING 1979-80.

6. DEVELOPMENT OPTIONS: IT WOULD BE DIFFICULT TO CITE ANY STRIKING NEW DEPARTURES IN THE GREEN PAPER FOR INCREASING OUTPUT OR JOB CREATION IN SPECIFIC SECTORS. IN THE WHITE PAPER TARGET OF 29,000 NET NEW NON-AGRICULTURAL JOBS ANNUALLY DURING 1978-80, 13,500 PER YEAR WERE EXPECTED FROM MANUFACTURING. TO SUPPLEMENT ON-GOING INDUSTRIAL INCENTIVE PROGRAMS THE GOVERNMENT INTENDS TO MAKE NEW EFFORTS TO: PRESERVE EXISTING JOBS (WHILE RECOGNIZING OBLIGATIONS TO THE EEC AND INTERNATIONAL TRADE AGREEMENTS); ASSIST SMALL INDUSTRY; ENCOURAGE STATE-SPONSORED BODIES TO EXPAND AND DIVERSIFY; IMPROVE EXPORT MARKETING PROGRAMS; SPUR A GREATER INTEREST IN R & D IN IRELAND; AND ENCOURAGE MINERAL

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EXPLORATION AND DEVELOPMENT. PRIVATE SECTOR SERVICES ARE EXPECTED TO PROVIDE ALMOST 8,000 JOBS PER ANNUM

FOR 1978-80, AND SUGGESTIONS ARE INCLUDED IN THE GREEN PAPER FOR MAXIMIZING POTENTIAL IN FIELDS SUCH AS TOURISM, TRAINING OVERSEAS PERSONNEL, ENGINEERING AND ARCHITECTURAL CONSULTANCY AND COMPUTER SOFTWARE SERVICES. THE GOI CONCEDES THAT THERE IS LITTLE SCOPE FOR FEASIBLE POLICY OPTIONS THAT WOULD MATERIALLY INCREASE AGRICULTURAL OUTPUT BEFORE 1980, BUT DOES SUGGEST A NUMBER OF AREAS WHERE POLICY CHANGES MIGHT HAVE A USEFUL LONGER TERM EFFECT. THESE INCLUDE A REVIEW OF CAP DEVELOPMENT MEASURES AND FARM MODERNIZATION PROGRAMS, IMPROVED AGRICULTURAL ADVISORY SERVICE AND FARMER TRAINING, THE PROMOTION OF EFFICIENT LAND UTILIZATION THROUGH STRUCTURAL REFORM AND FISCAL MEASURES, AND NEW STRATEGIES FOR DAIRY AND BEEF CATTLE PROCESSING INDUSTRIES. WITH RESPECT TO GOVERNMENT EXPENDITURE FIRST PRIORITY WILL GO TO SUPPORTING EMPLOYMENT INCREASES IN THE DIRECTLY PRODUCTIVE SECTORS OF THE ECONOMY. SECOND PRIORITY WILL BE EXPENDITURE TO PROVIDE THE INFRASTRUCTURE NECESSARY TO ENCOURAGE AND SUPPORT PRODUCTIVE INVESTMENT, ESPECIALLY INTERNAL TRANSPORT AND TELECOMMUNICATIONS.

7. SOCIAL WELFARE: AS INDICATED IN PARAS 4 AND 5 IMPROVEMENT IN SOCIAL SERVICES IS TO TAKE A BACK SEAT TO GROWTH AND JOB CREATION. THE GOVERNMENT EMPHASIZES THAT EVERY EFFORT WILL BE MADE TO INSURE AN ADEQUATE LEVEL OF SERVICES. THESE WILL BE PROVIDED IN THE MOST EFFICIENT MANNER POSSIBLE WITH TIGHTER CONTROL TO MINIMIZE WASTE AND ABUSE. A MAJOR CHANGE IN THE FINANCING OF SOCIAL INSURANCE WILL SWITCH CONTRIBUTIONS FROM A FLAT RATE TO A PROGRESSIVE SYSTEM, INCREASING PAYMENTS FOR MOST CONTRIBUTORS. ANY SUBSTANTIAL EXPANSION OF SOCIAL SERVICES LOOKS UNLIKELY FOR THE IMMEDIATE FUTURE, AND CHARGES FOR SOME CURRENTLY

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PROVIDED SERVICES SUCH AS POST PRIMARY EDUCATION MAY BE INCREASED. A FURTHER PROPOSAL SUGGESTS THE POSSIBILITY OF A GRADUAL PHASING OUT OF CONSUMER SUBSIDIES FOR MILK, BUTTER, FLOUR, BREAD AND GAS. THE TOTAL COST OF THESE SUBSIDIES IN 1978 IS ESTIMATED AT IRISH POUNDS 63 MILLION, WITH THE MILK SUBSIDY ALONE COSTING IRISH POUNDS 25 MILLION.

8. COMMENT: THE GREEN PAPER REFERS TO A NEED FOR "RADICAL POLICIES AND ACTIONS" AND CALLS FOR "FUNDAMENTAL CHANGES - SOME POLICY, SOME STRUCTURAL, SOME ATTITUDINAL - INVOLVING ALL SECTIONS OF THE COMMUNITY". WITH A FEW EXCEPTIONS THE DOCUMENT'S SPECIFIC PROPOSALS FAIL TO LIVE UP TO THIS DRAMATIC BILLING. THE DEVELOPMENT OPTIONS FOR AGRICULTURE, LIMITED OFFICIAL USE

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INDUSTRY AND THE SERVICES SECTOR ARE NEITHER RADICAL NOR IN MOST CASES EVEN NEW TO THE IRISH SCENE. THE OPTIONS PRESENTED, MOREOVER, ARE NOT STRATEGIC BUT TACTICAL, AND FOR THE MOST PART RATHER LIMITED IN SCOPE. THE GREEN PAPER REAFFIRMS THE BASIC PHILOSOPHY PREVIOUSLY LAID OUT IN THE PRE-ELECTION MANIFESTO AND IN JANUARY'S WHITE PAPER - I.E., SHORT TERM PUMP PRIMING THROUGH A STIMULATIVE FISCAL POLICY, WITH A MEDIUM AND LONG TERM RELIANCE ON THE PRIVATE SECTOR TO CREATE LARGE-SCALE EMPLOYMENT OPPORTUNITIES. BUT IF THE GOVERNMENT IS GUILTY OF HYPERBOLE IN DESCRIBING THE CONTENTS OF THE GREEN PAPER IT HAS NONETHELESS INITIATED A REMARKABLE PROCESS BY SEEKING WIDE SPREAD PARTICIPATION IN THE SELECTION OF POLICY OPTIONS WHICH, EVEN WITH THEIR LIMITATIONS, WILL INFLUENCE ECONOMIC STRUCTURE AND CONDITIONS IN IRELAND FOR THE NEXT DECADE. THE DEBATE WHICH THE DOCUMENT WAS DESIGNED TO STIMULATE HAS HARDLY BEGUN, BUT IT SEEMS CLEAR THAT THE LOW PRIORITY ASSIGNED TO IMPROVING SOCIAL SERVICES AND THE PROPOSALS ON THE PHASING OUT OF FOOD SUBSIDIES AND ON WORK SHARING ARE MOST LIKELY TO BECOME LIGHTNING RODS FOR OPPONENTS.

PERHAPS AN EVEN MORE SERIOUS QUESTION IS WHETHER THE
GOVERNMENT WILL BE ABLE TO ADOPT A TIGHTER FISCAL POLICY
IN 1979 AND 1980 WITHOUT TORPEDOING ITS VERY AMBITIOUS
(MANY SAY UNREALISTIC) GROWTH AND JOB CREATION TARGETS
FOR THAT PERIOD. PERHAPS THE MOST RELEVANT QUESTION OF
ALL DOES NOT APPEAR IN THE GREEN PAPER -- CAN A SMALL
OPEN ECONOMY DEPENDENT FOR 50 PERCENT OF ITS GNP ON
EXPORTS ACHIEVE RECORD GROWTH AND JOB CREATION TARGETS
WITHOUT A SUBSTANTIAL UPTURN IN THE ECONOMIC PROSPECTS
OF ITS MAJOR TRADE PARTNERS? RENDAHL

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